Navigating Compliance

A Comprehensive Analysis of the Reg-Tech Landscape in the Financial Sector

A Basic Roots Consulting Deck

What is Reg-Tech?

Regulatory technology is an umbrella term for a broad range of software and digital tools that help institutions comply with regulatory demands

Key Areas of Application
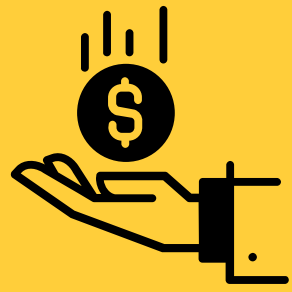
Financial Services

Healthcare

Agriculture

Travel

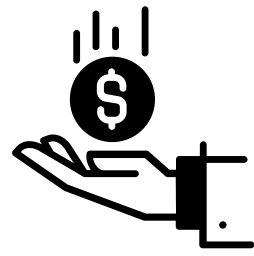## Reg-Tech Supply Chain

Onboarding ┄┄▶ Monitoring ┄┄▶ Detection ┄┄▶ Reporting

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Cross-Sector Application of Reg-Tech

Financial Services

Use Cases

- Assisting financial institutions in streamlining their regulatory compliance processes and improving overall regulatory effectiveness

- KYC & Risk Management softwares allow firms to mitigate Customer Fraud and Cyber-Security risks

**End Users-** Fin-Techs, Traditional Financial Institutions

Agriculture

Use Cases

- RegTech solutions will improve compliance with agricultural regulations by automating processes for data collection, analysis, and reporting

- Digitalisation of agricultural supply-chain tracking is increasing areas of application for Reg-Tech

**End Users-** Farmers, Agricultural Technology providers
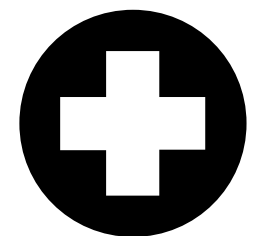
Healthcare

Use Cases

- Attractive target for cyberattacks because records contain sensitive personal data and important financial information that are valuable resources

- AML, KYC, and anti-fraud detection can be adopted in the risk prediction of Medicare fraud

End Users- Hospitals, Insurance Providers
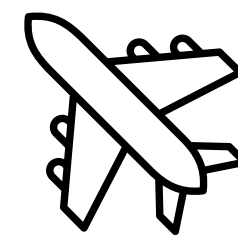
Travel

Use Cases

- Developments in transportation have generated demand for regulations to ensure safe operations

- Data monitoring, KYC, and anti-fraud detection softwares prevent fraud and enhance customer experience which results in fast growth

End Users- Tourism Operators, Hotels

Deep-Dive into Reg-Tech supply chain

Onboarding

- The signing up of new customers and the process they go through to become users
- To counter threats from money laundering, financial institutions must be able to verify legitimate customers and funds

Monitoring

- Monitoring refers to the analysis of ongoing activities to ensure they remain in regulatory compliance
- Tools inspect various things such as suspicious activities, change of status, recording of communications, surveillance of employees, trade data

Detection

- There are various activities to keep track of, such as risk signals, fraud flags, various other transaction detection needs
- Financial institutions (FIs) must use these tools to ensure fraud is not committed, or that dangerous funds enter their system

Reporting

- Reporting to regulators is critical to ensure their compliance requirements are met
- FIs must use reporting tools to ensure that they effectively meet all compliance requirements

Why do you need Reg-Tech?

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Reg-Tech Solutions

Frequent additions of financial regulations by governments

High levitation of penalty on non-compliance with regulations

Insufficient automation and digitisation to meet the pace of regulatory changes

High overhead costs on production and deployment of solution to comply with the regulation

Non-standardised approach, incompatible systems, low integration of systems

Circulars and modifications on existing regulations
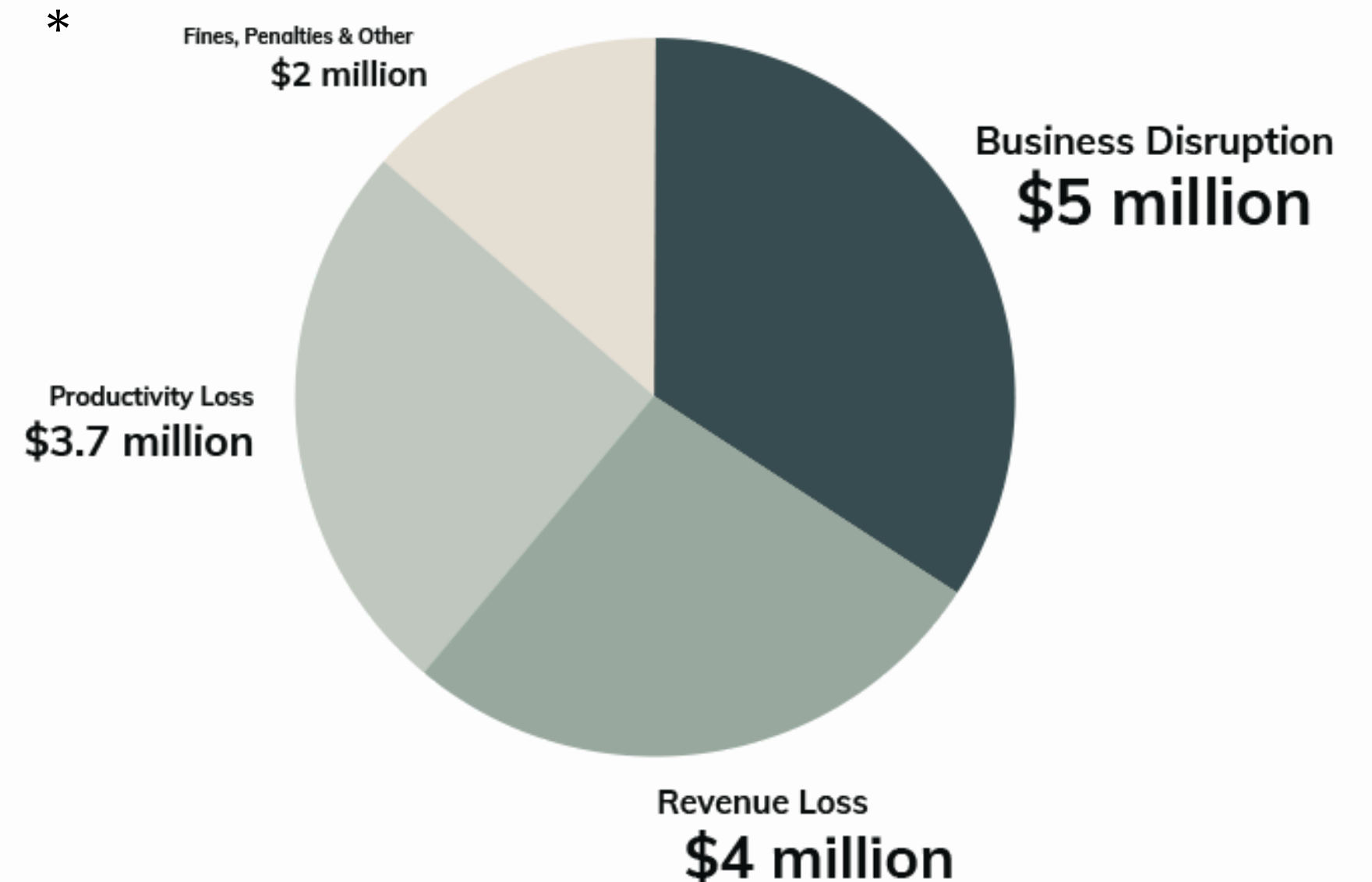
The world without Reg-Tech

$16.9 Bn

Amount lost by FIs due to account takeover and identity fraud in 2019 alone

60%

Jump in compliance costs and risk management spending since 2008

500%

Increase in regulation changes in financial industry since 2008

*

Fines, Penalties & Other
$2 million

Business Disruption
$5 million

Productivity Loss
$3.7 million

Revenue Loss
$4 million

Average amount of money lost by a firm due to regulatory non-compliance in FY21

* Source- Ascent Regtech

Market Opportunity

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*$8 Bn

2021

CAGR- **21.5%**

*$13 Bn

2023

Expected CAGR- **24.9%**

*$61 Bn

2030
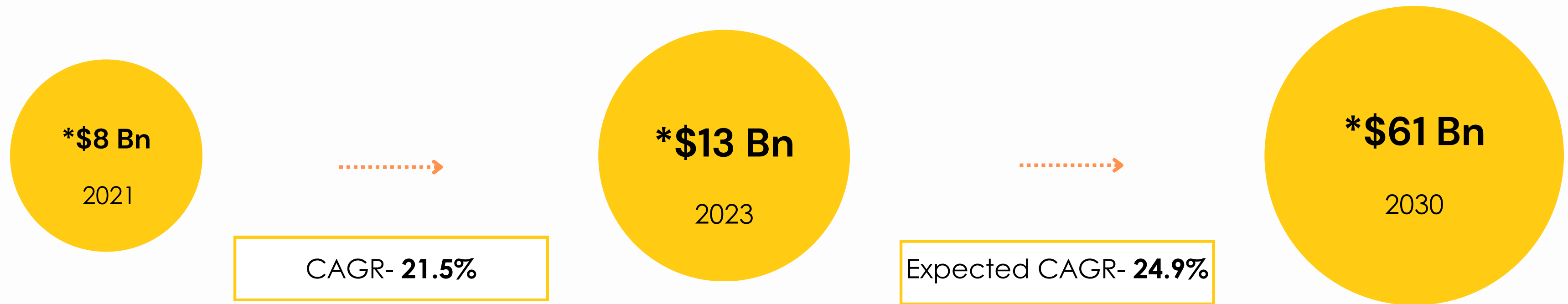
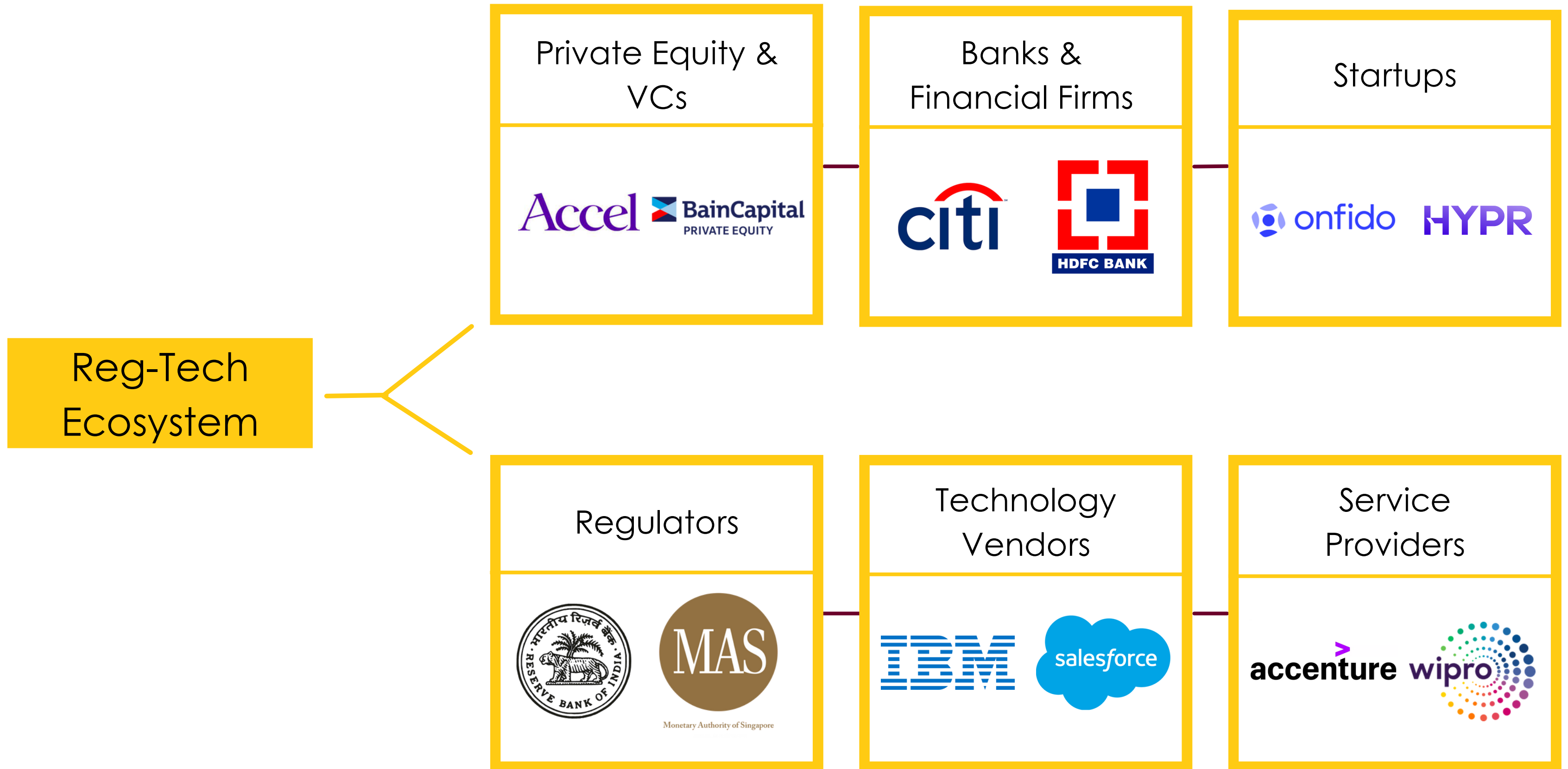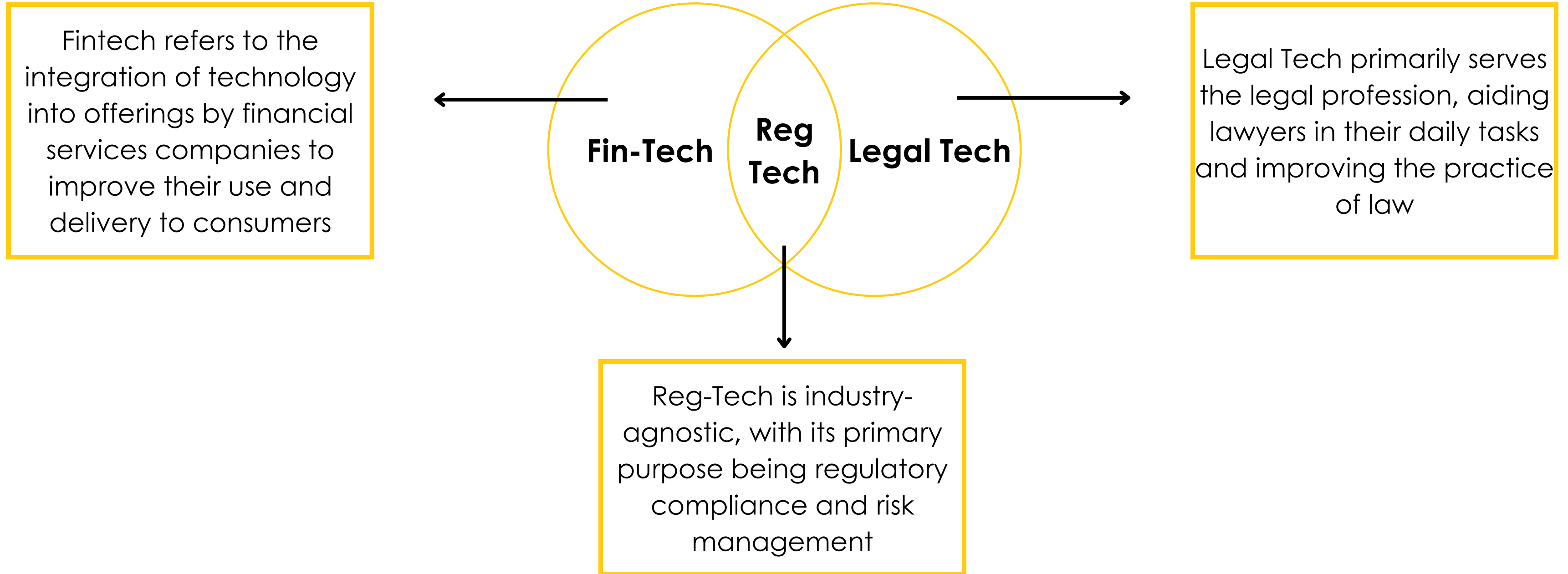**Levers behind this growth**

1) Regulators are offering sandbox environments to encourage startups to test solutions before market launch

2) With increasing regulatory pressure, FIs are directly investing in startups to get their hands on solutions quickly

3) FIs are working alongside these startups to develop solutions to streamline regulatory compliance frameworks

* Source- Fortune Business   * Source- Markets&Markets

Market Participants

Where does Reg-Tech sit in the market?

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Fintech refers to the integration of technology into offerings by financial services companies to improve their use and delivery to consumers

Fin-Tech   **Reg Tech**   Legal Tech

Legal Tech primarily serves the legal profession, aiding lawyers in their daily tasks and improving the practice of law

Reg-Tech is industry-agnostic, with its primary purpose being regulatory compliance and risk management
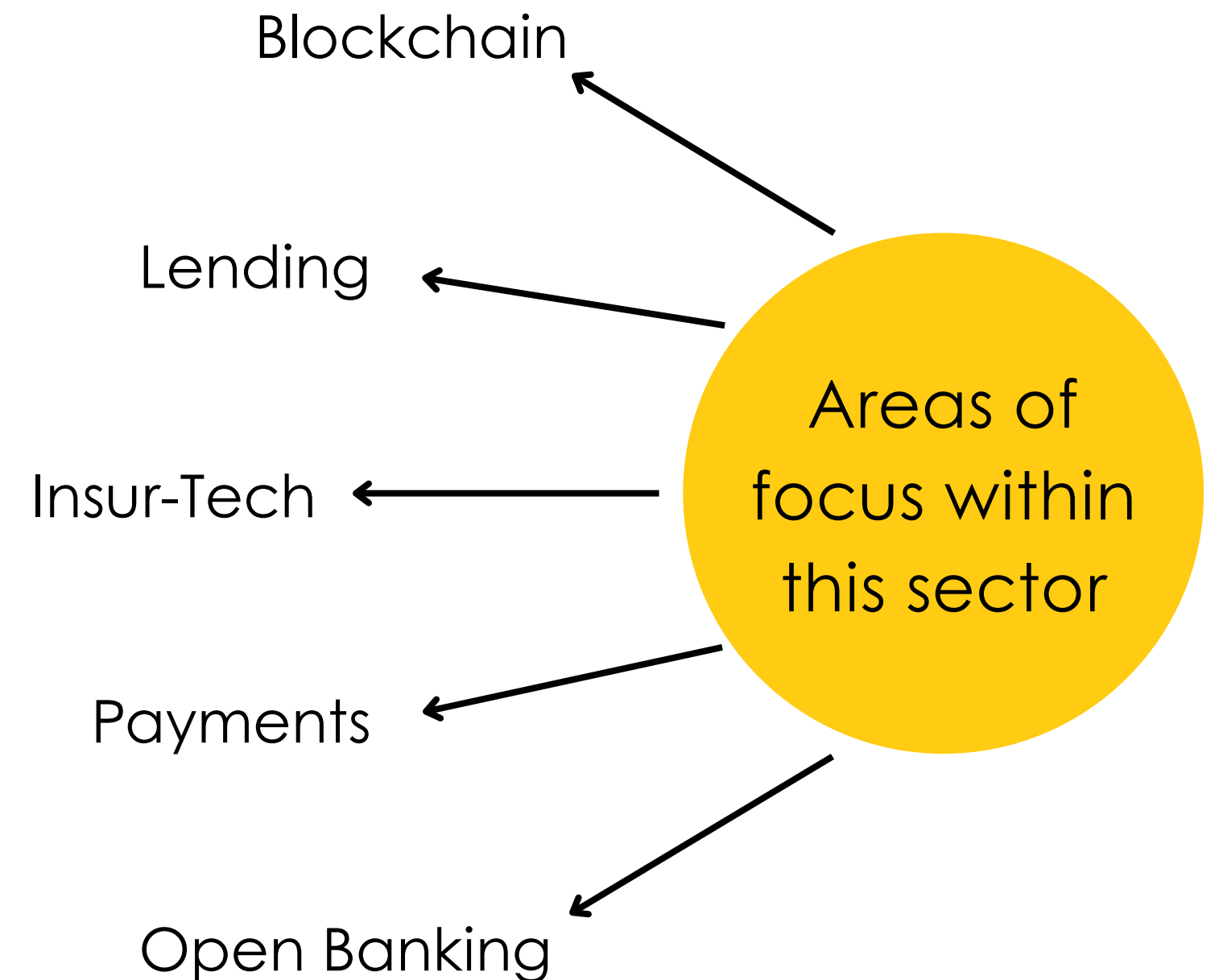
Reg-Tech has found it's primary application in the Financial Services sector and it is within this context that we would be discussing Reg-Tech in this deck

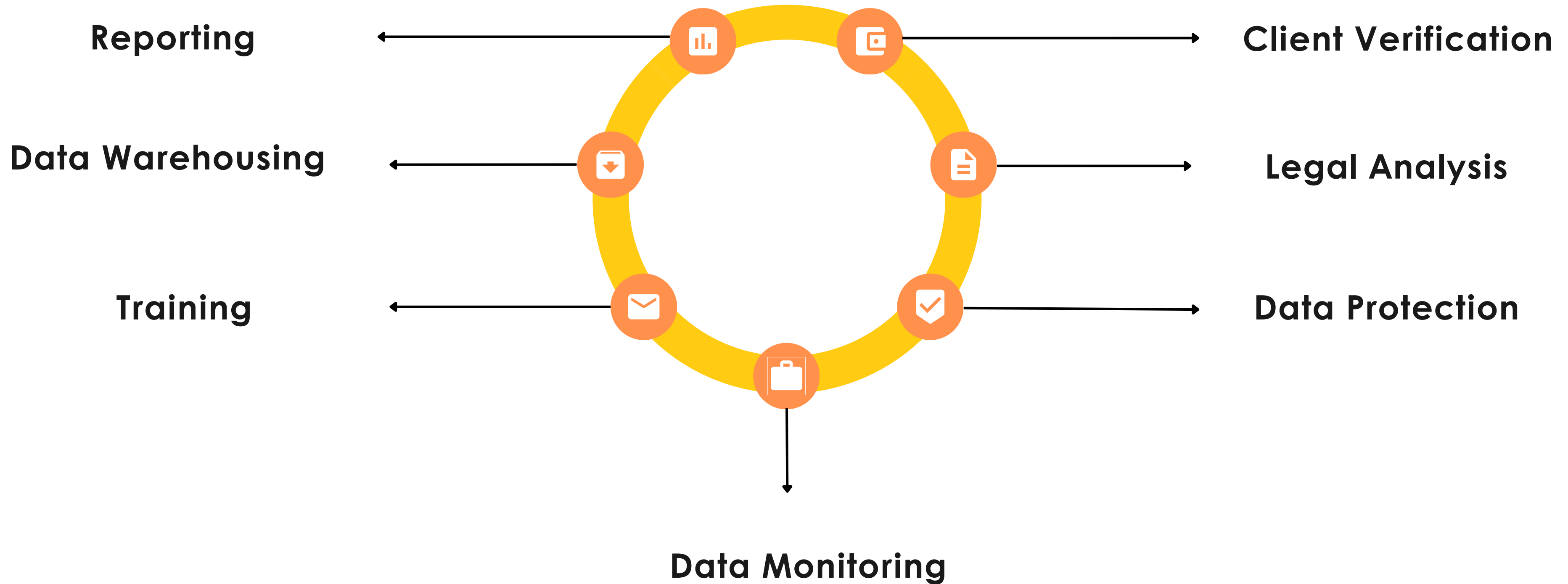# Moving the focus to Reg-Tech under Fin-Tech

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While the Fin-Tech industry was unregulated for a long time, regulations have developed alongside the industry and Fin-Techs are now closely regulated by National Regulatory Bodies

The regulation of the Fin-Tech industry is more complicated than for financial institutions because of 2 reasons:

1) Fin-Techs are typically much smaller but still subject to the same intense regulation as traditional FIs
2) Fint-Techs are more likely to operate across several jurisdictions and need to comply with different regulations in each region

Blockchain

Lending

Insur-Tech

Payments

Open Banking

Areas of focus within this sector

Bouquet of Reg-Tech Solutions

Reporting

Client Verification

Data Warehousing

Legal Analysis

Training

Data Protection

Data Monitoring

Deep-Dive into various solutions

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1 Reporting
- Helps companies fulfill their regulatory reporting obligations
- Includes collecting, processing, submitting internal data to the authorities

2 Client Verification
- Helps companies gather & process information on prospective and current customers
- Includes background checks like KYC & AML

3 Data Warehousing
- Helps companies properly store, sort and analyze vast quantities of data
- This data is crucial for legal compliance

4 Legal Analysis
- Helps companies identify areas of non-compliance in their setup
- Refers to tech monitoring & interpreting emerging & existing regulations

5 Training
- Set of tools designed to help FIs educate and train their staff regarding laws and policies that relate to their work function

6 Data Protection
- These tools protect personal data in compliance with regulations
- They offer protection from data breaches and security threats

7 Data Monitoring
- Focuses on monitoring ongoing transactions to identify whether they breach regulations or display signs of suspicious activity

How does this sector benefit via Reg-Tech?

Saves time by reducing client onboarding time and digitising the KYC process

Reduces risk of data or cybersecurity breaches caused by insufficient monitoring

Saves money by lowering risk of fines/legal expenses arising due to regulatory non-compliance

Helps to improve data analytics by providing clients with dashboards and full financial data history

Reg-Tech solutions are detrimental to financial growth of companies

Evolution of Reg-Tech

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- FIs began introducing new technologies to monitor risks of specific regulations

- These developed into some of the quantitative risk management practices that we're familiar with today

- A move from 'know your customer' to 'know your data'

- FIs are viewing risk and regulation as data and prediction problems that can be solved by technology

REG-TECH 1.0　　　　　**REG-TECH 2.0**　　　　　**REG-TECH 3.0**

1980 - 2000　　　　　2000 - 2020　　　　　2020 Onwards
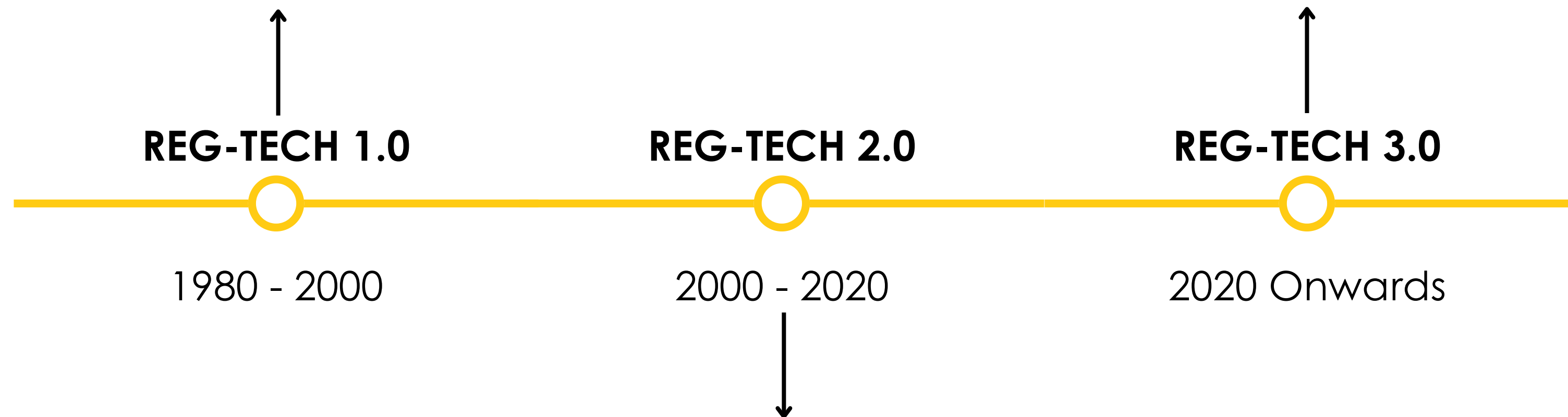
- These tools have helped companies to comply with rules and improve their supervision activities

- Most RegTech applications have focused on KYC by improving consumer protection and challenging bad behaviours

Our Insights on this sector

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RegTech will expand its influence across more industries

RegTech will offer solutions to solve sector-specific compliance challenges, enabling large-scale technology adoption across different sectors

Steady collaborations between Reg-Techs and FIs

These collaborations will produce innovations that accelerate the digitisation of compliance processes and enhance the consumer experience
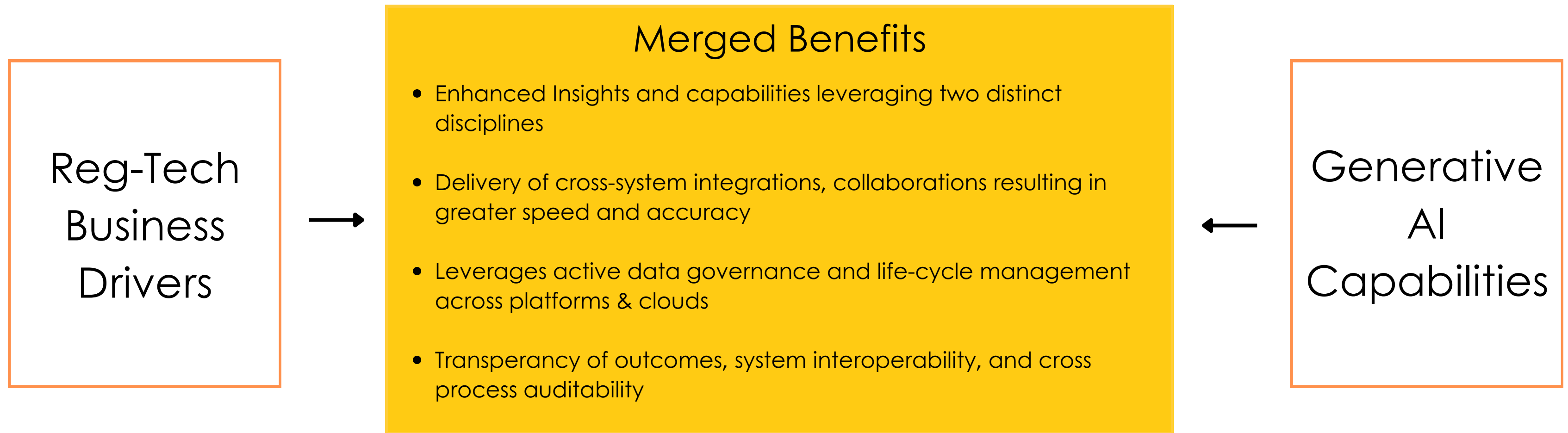
AI to become the leader of the Reg-Tech tech stack

Generative AI & LLMs are already transforming compliance workflows. From ideation to operations, the potential for these technologies to streamline compliance processes is just going to grow

The potential for RegTech 3.0 is backed by support from regulators, impetus for digital change, growing levels of investment and a proliferation of startups seeking to meet demand alongside big tech companies
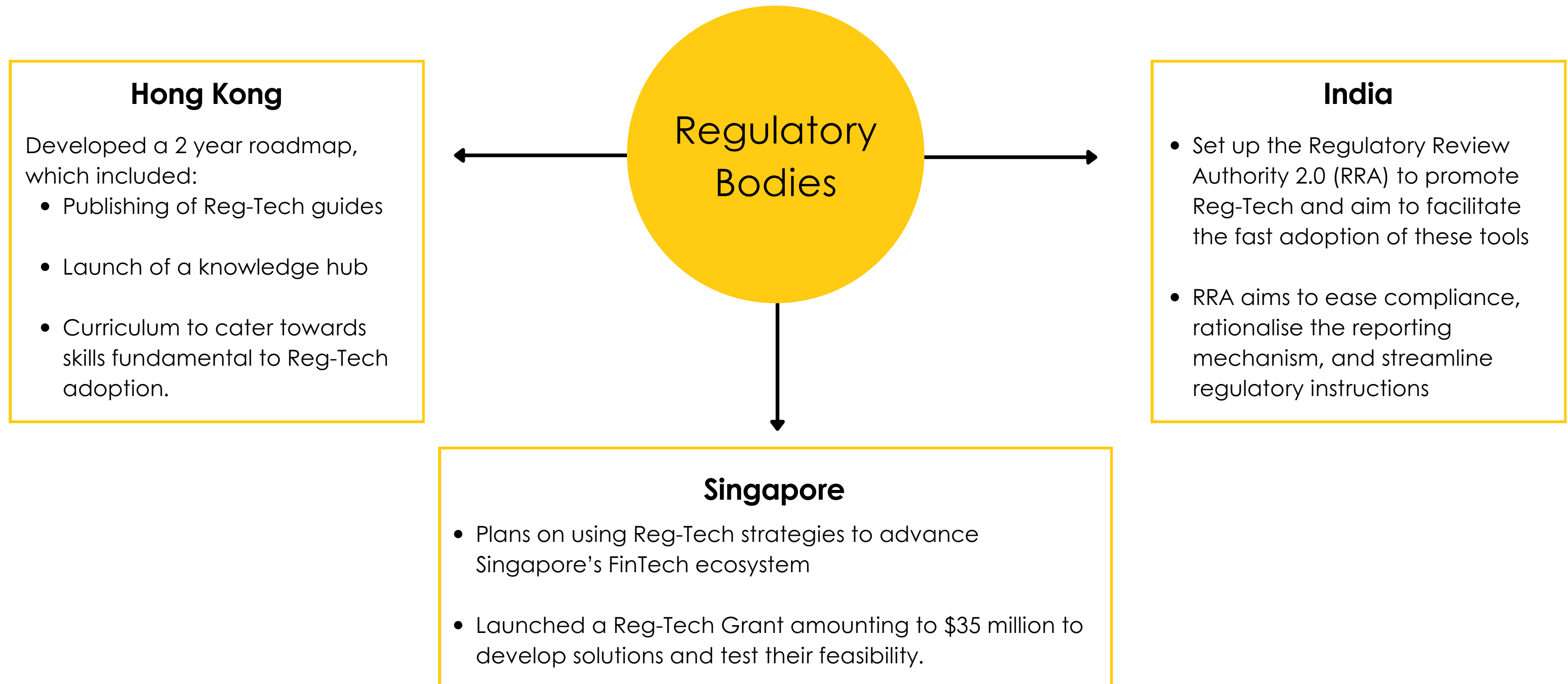
A little more on AI enabled Reg-Tech

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Reg-Tech Business Drivers →

Merged Benefits

- Enhanced Insights and capabilities leveraging two distinct disciplines

- Delivery of cross-system integrations, collaborations resulting in greater speed and accuracy

- Leverages active data governance and life-cycle management across platforms & clouds

- Transperancy of outcomes, system interoperability, and cross process auditability

← **Generative AI Capabilities**

A few startups leveraging this technology

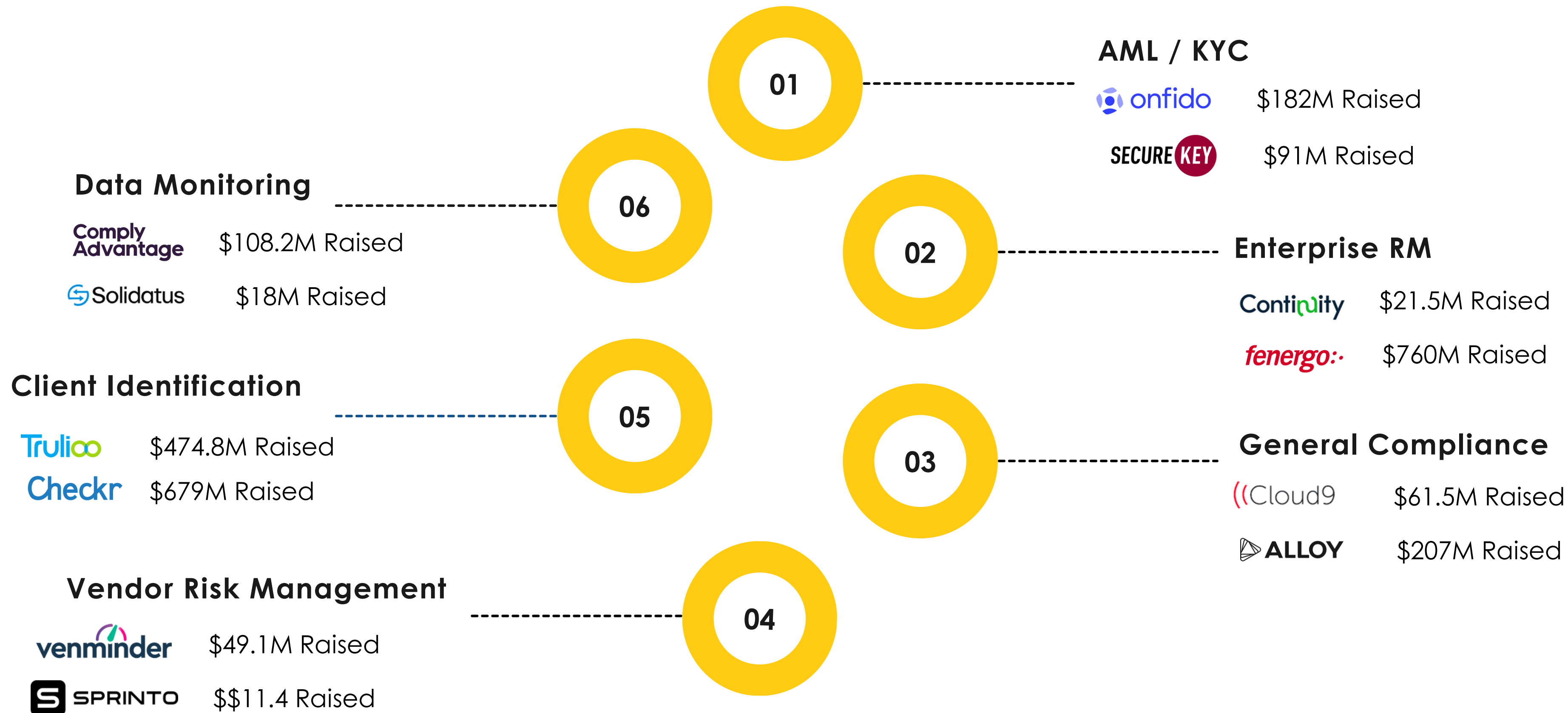|	
PureML	AI Governance platform that helps to track, assess, report and manage projects across organisations to ensure that they are effective, compliant & safe
COMPLY ADVANTAGE	AI driven fraud and Anti-money laundering platform that helps clients manage their compliance obligations effectively through automated & ongoing risk monitoring

Global adoption of Reg-Tech

Regulators are taking a proactive stance to educate the financial services industry on the role of regulatory technology

Regulatory Bodies

Hong Kong

Developed a 2 year roadmap, which included:

- Publishing of Reg-Tech guides

- Launch of a knowledge hub

- Curriculum to cater towards skills fundamental to Reg-Tech adoption.

India

- Set up the Regulatory Review Authority 2.0 (RRA) to promote Reg-Tech and aim to facilitate the fast adoption of these tools

- RRA aims to ease compliance, rationalise the reporting mechanism, and streamline regulatory instructions

Singapore

- Plans on using Reg-Tech strategies to advance Singapore's FinTech ecosystem

- Launched a Reg-Tech Grant amounting to $35 million to develop solutions and test their feasibility.

Tech-Stack of Basic Reg-Tech Tool

SRL	Technology	Use Cases
1	**Blockchain**	• Ability to provide transparency, immutability, and security in record-keeping • Creation of tamper-proof audit trail of regulatory reports
2	**Artificial Intelligence**	• Predictive Insights and Scenario Analysis to Improve Risk Management • Process Improvements in Regulatory Reporting and Transparency
3	**Cloud Computing**	• Enables entities to process large amounts of data securely and efficiently • Allows firms to scale their operations easily without having to invest
4	**Natural Language Processing**	• Allows businesses to automate & streamline regulatory compliance processes • Can be used in the extraction and cleaning of unstructured data
5	**Application Programming Interface**	• Offer a seamless exchange of data & instructions between applications • Enable easier collection and processing of data from databases

Reg-Tech Tools Landscape

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01

AML / KYC

onfido $182M Raised

SECURE **KEY** $91M Raised

Data Monitoring

06

Comply Advantage $108.2M Raised

Solidatus $18M Raised

02

Enterprise RM

Continuity $21.5M Raised

fenergo: $760M Raised

Client Identification

05

Trulioo $474.8M Raised

Checkr $679M Raised

03

General Compliance

Cloud9 $61.5M Raised

ALLOY $207M Raised

Vendor Risk Management

04

venminder $49.1M Raised

SPRINTO $$11.4 Raised

Double clicking a few Indian companies

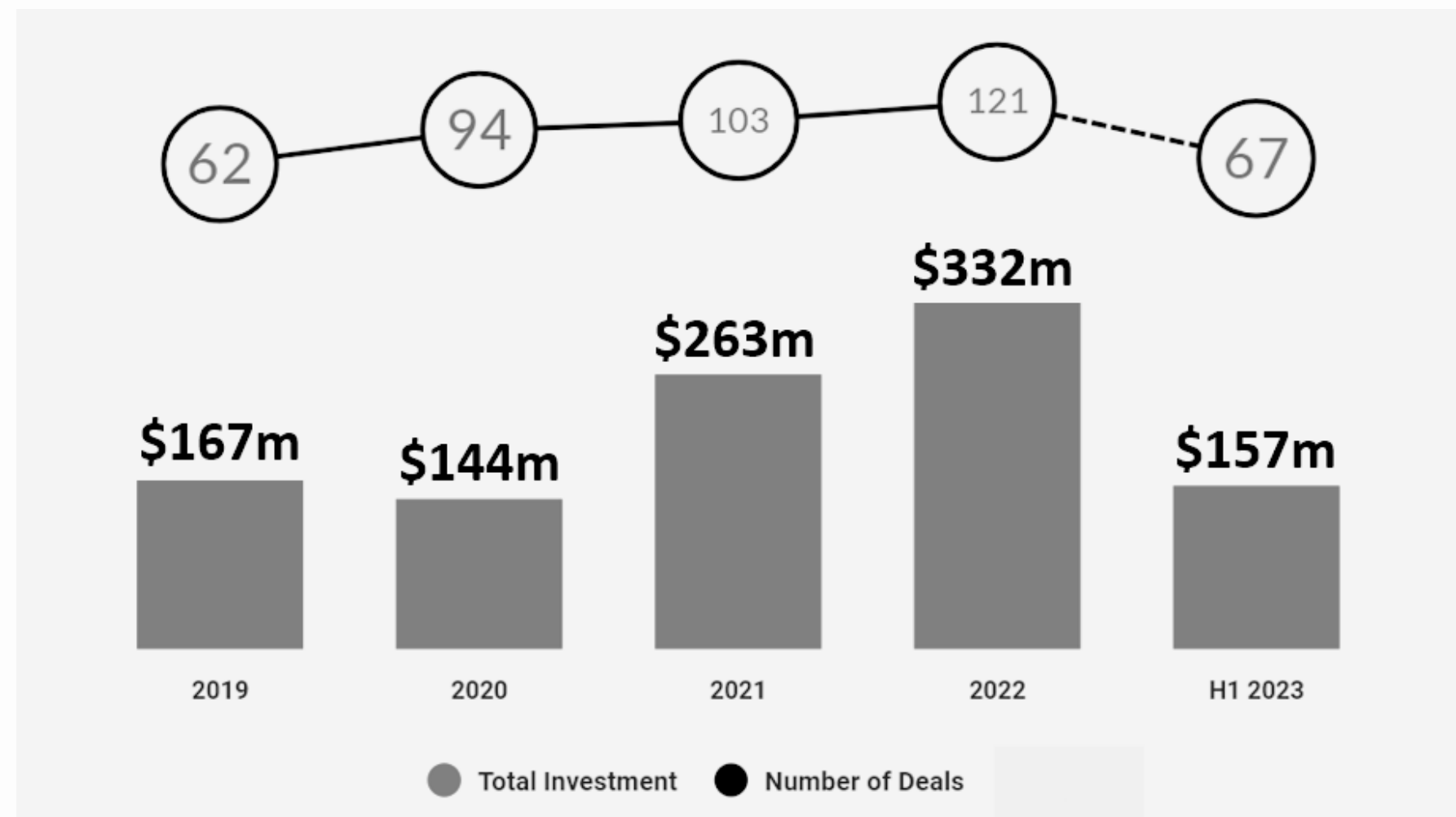| Organisation	Sector	Funds Raised	ARR
crediwatch	Data Monitoring	$4.8M	$815K
IDfy	Client Verification	$21M	$7.81M
HYPERVERGE	Client Verification	$1M	$12.1M
SIGNZY	Onboarding	$38.3M	$8.05M
simility	Data Protection	$24.7M	$9.06M

Funding in Reg-Tech

17.8%
Contribution of Reg-Tech deals to total Fintech deals in Q3 2023

42%
YoY Growth in Global RegTech seed deals- A new record

$5.3 Bn
Total global funding activity in Regtech in H1 2023

Indian Investors	Global Investors
BLUME, PRIME VENTURE PARTNERS, chiratae VENTURES, kalaari capital, Stellaris VENTURE PARTNERS	Accel, SEQUOIA, Gaingels, BESSEMER VENTURE PARTNERS, INSIGHT PARTNERS, LU+, bpifrance, Alumni Ventures

Global Reg-Tech Seed Investment
2019-H1 2023 (USD, Number of Deals)

* Source- Regtech Analyst